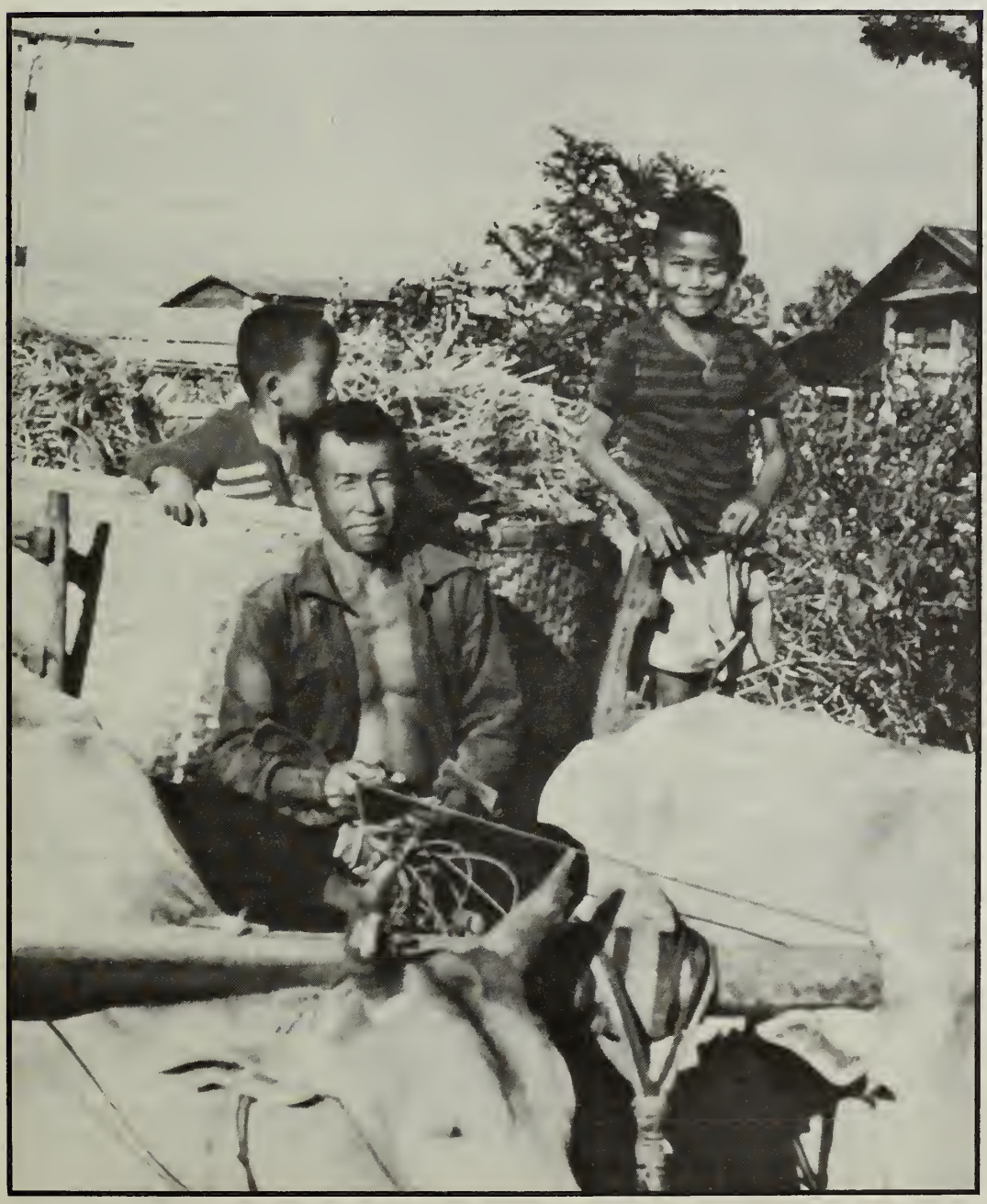
Foreign Agriculture

January 15, 1979

Foreign
Agricultural
Service
U.S. DEPARTMENT
OF AGRICULTURE



Farm scene in a small village in Thailand.

Doing Business on The Arabian Peninsula: Opportunities Abound For Food Exporters

By Marvin Lehrer

Rich in petroleum but short on food production capability, the Arabian Peninsula has become a magnet for food exporters the world over. Not the least of these are U.S. exporters, who boosted agricultural exports to the region sixfold between 1971 and 1977 and may have doubled sales again in 1978. The challenge now is to hold on to this upward momentum in the face of increasingly stiff competition.

From a market that once merited little more than a footnote in U.S. trade books, the Arabian Peninsula has emerged as one of world's most dynamic importers of agricultural product.

U.S. agricultural exports to the region—Saudi Arabia, Kuwait, Oman, Qatar, Bahrain, the United Arab Emirates (UAE), North Yemen, and South Yemen—climbed more than sixfold between 1971 and 1977 to over $200 million. And they may have doubled again in 1978 as a result of surging exports to the Peninsula's premier importer, Saudi Arabia.

So much growth, so fast, in a region that has fewer than 10 million people raises the question of when the saturation point will be reached—as well as how to get a piece of the action before demand begins to level off. But so far there is little indication that demand has peaked. Nor have U.S. exporters gained their optimum market share, which in 1977 amounted to only about 10 percent.

The key to further sales expansion lies in principles that apply in any market—exporters' willingness to research the market, respect the customs and requirements of the region, and offer high-quality products on a continuing basis.

The Demand Factors

Exports to the Arabian Peninsula are being stimulated both by population growth and rising incomes. Changing dietary habits also are playing a part as populations become increasingly sophisticated in their food tastes and more heterogeneous in their makeup.

Petroleum forms the basis for the wealth of the region, which boasts more than a third of the world's known petroleum reserves and—because of that—an oversized portion of the foreign exchange reserves. Saudi Arabia, for instance, had $31 billion in gold and foreign exchange reserves as of 1977—15 percent more than in the previous year—and a per capita gross domestic product of some $10,000.

A dry, predominately desert region, inhospitable to agricultural production, the Arabian Peninsula must import around 95 percent of its food needs. And these needs are expanding rapidly.

Indigenous populations are changing and enriching their eating habits, which until recently were bound up in the old traditions—a little meat, predominately mutton, goat, and camel meat; rice; bread; ghee (butter oil); and dried fruits.

Additionally, Western expatriates attracted to the region by ambitious economic development projects are demanding high-quality and consumer-ready foods, while influencing eating habits generally. Among their contributions to the local scene has been the supermarket, which in some cases compares with anything found in the United States—piped-in music, inventory control, product lines representing almost every country of the world, and expensive displays.

At the same time, Indian, South Korean, and other workers recruited for the region's numerous construction projects are adding both to the number of people who must be fed and to demand for specialized and lower priced imports.

With small but affluent populations and a lack of food processing industries, these countries spend a greater proportion of their import dollars on food for direct consumption—the so-called consumer-ready foods—than do most nations. During calendar 1977, consumer-ready products accounted for about a fourth of total U.S. agricultural exports to the region, including 23 percent in Saudi Arabia, 32 percent in Oman, 51 percent in Qatar, 55 percent in Bahrain, and 60 percent in the UAE.

The $39.2 million worth of consumer-ready exports to Saudi Arabia during 1977 was enough to make that country the 10th largest market worldwide for U.S. processed foods.

In contrast, Iran—the leading U.S. farm market in the Middle East and North Africa—took only $8 million worth of U.S. consumer-ready foods in 1977 out of total U.S. farm-product sales there of $323 million. In that case, bulk items such as wheat, rice, oil cake and meal, tobacco, tallow, and vegetable oils dominated U.S. agricultural exports.

So far, U.S. food exporters to the Arabian Peninsula have been most successful in selling meat and meat products, poultry and poultry products, nuts, fruit and vegetable juices, preserved fruits and vegetables, and numerous canned and prepared foods.

Although trade growth has been highly erratic at times, it is impressive when traced over a 5- or 6-year period.

Among the rapid gainers, U.S. beef exports to Saudi Arabia grew 60-fold between 1971 and 1977 to

The author is trade development officer for the Middle East and North Africa, Export Trade Services, Foreign Agricultural Service.

$5.3 million; poultry product exports rose nearly 20-fold to $2.2 million; almond exports climbed 100-fold to $320,000; preserved vegetable sales gained 26-fold to $5 million. Similar sharp gains occurred in exports to the other markets of the Arabian Peninsula.

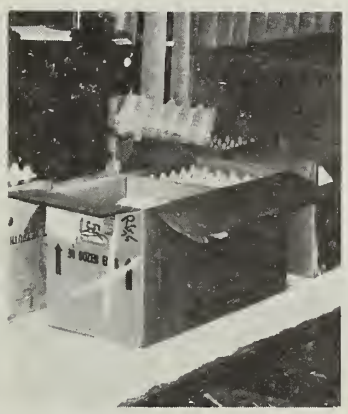
Opportunities in previously untapped areas can crop up literally overnight. U.S. apple exporters, for instance, first entered the Saudi market in 1976 with a modest $2,000 in sales but then earned $4.8 million the following year. Potato and corn chip sales in Saudi Arabia shot from $180,000 in 1976 to $1 million in 1977. U.S. shell eggs made their initial appearance in Arabian Peninsula markets during 1977, and U.S. exports to these countries in the first 6 months of 1978 earned some $3.6 million.

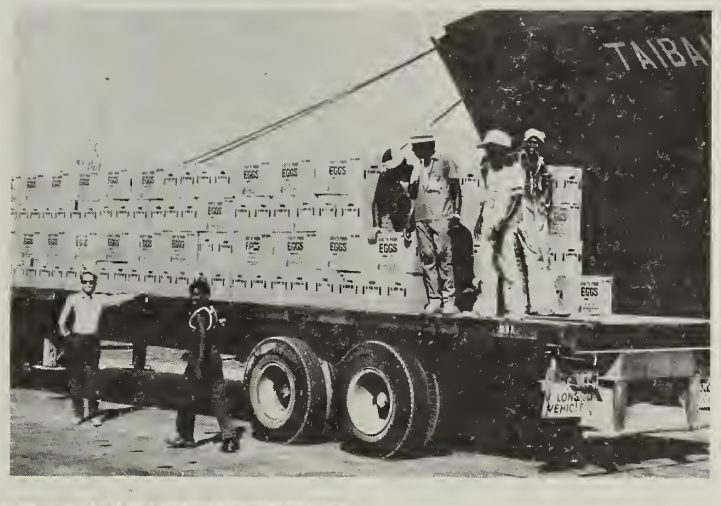
Competition Keen, Import Rules Stiffen

U.S. exporters are not operating in a vacuum, however, as witnessed by this country's inability to supply more than 10-20 percent of the market in most years.

Exporters the world over —from the European Community, South America, Eastern Europe, and the Far East—have rushed to capitalize on the region's enlarged buying power. And many are gaining a competitive edge as a result of aggressive selling practices, traditional ties with Arabian Gulf nations, proximity to the market, and the use of export subsidies.

France, for instance, has captured a major portion of the region's broiler import trade through use of export subsidies that totaled around 30 cents per kilogram in mid-1978. Similarly, Brazil in the first 6 months of 1978 was able to deliver subsidized broilers at $1,100 a metric ton, compared with about $1,500 for the United States.





Some farm and trade scenes in the United Arab Emirates (top to bottom, left to right): Seed propagated at an experimental farm at Sadiyat; a closeup of the seeds; facility for check grading U.S. eggs sold to the UAE; U.S. eggs loaded on a truck for transport to cold storage facilities; and sheep on an oasis.

U.S. poultry exporters have circumvented the competition to a certain extent by shifting to chicken and turkey parts, further-processed items, and other products that are not exported at subsidized prices by the competitors.

Additionally, the strong import demand from these petroleum-rich nations has put tremendous pressure on both their outdated ability to handle product transfers and the limited cargo storage and shipping space. Updating of the region's port facilities during the past few years has helped relieve the severe port congestions and delays prevalent in the mid-1970's, but supply-demand factors still work against U.S. shippers of food and agricultural products. For instance:

- Nations of the European Community and Eastern Europe—major U.S. competitors—can deliver their products overland by truck in a few weeks, as well as by ship and air and various piggyback arrangements. Regardless of their methods of transportation, Europe and nearby countries enjoy both a cost/distance advantage and a substitution-of-mode advantage when one form or the other breaks down or is not suitable.
- Shippers of farm products also must compete for limited cargo space with exporters of manufactured goods of equal or greater value. Incremental shipping costs add less to the price of higher ticketed items than to already highly competitive goods with lower unit prices.
- U.S. exporters of perishable products to the

Arabian Gulf have found that their relatively low-volume shipments do not compete favorably for scarce reefer container space. Steamship companies allocate refrigeration space on a worldwide demand basis, assigning priorities to higher density markets where vessels complete turnaround in a reasonable time.

On a positive note, one industry source recently lowered container price quotations from the $16,000 of a few months ago.

In some cases, the United States is also a "Johnny-come-lately," up against competitors who gained a foothold in the market long before the Arabian Peninsula became a magnet for food-product imports. Eastern Europe, for instance, traditionally has dominated the shell egg market, and the British have been selling their confectioneries, jams, and jellies, and other specialized products there for years.

Because of these problems, U.S. successes often center around quality, brandname, and specialized items. A drawback is that Arab buyers are so price-conscious that they may take cheaper, lower quality items from other suppliers rather than pay more for U.S. products.

These price factors, the region's liberal import policies, and its high appeal as an export outlet have made the Arabian Peninsula something of a dumping ground for food products. Peninsular Governments are responding by tightening food and labeling requirements in a market that heretofore had few restrictions beyond the traditional prohibitions on import of pork products and alcoholic beverages.

Recently, bid and performance bonds have been requested as a means of hindering unscrupulous exporters.

Saudi Arabia—as the top importer—is leading the way in the food law area, and regulations now being implemented there eventually could apply to the entire region.

In 1977 the Government of Saudi Arabia issued standard specifications No.

Guides to Selling on The Arabian Peninsula

"For a while, I thought I'd lost out in Saudi Arabia. Six months went by with nothing. Then about 3 weeks ago, I got an L/C [letter of credit] with a sample order for four containers of canned goods, and it looks like I'll do nearly $500,000 this year just in canned goods, not to mention my other products.

"It first seemed as if we'd wasted our time traveling over there. It isn't cheap. But we followed through and now we're looking to the Arabian Gulf as our No. 1 export market."

These remarks by members of a recent sales mission to Saudi Arabia show that—while selling in the rich Arabian Gulf countries may not always be easy—the potential is tremendous.

How does the U.S. exporter go about tapping this market and adjusting to customs, business practices, and trade requirements that can be radically different from those in the United States?

A first step would be to research the market thoroughly, making use of services available from the U.S. Government and other agencies. The Export Trade Services Division of USDA's Foreign Agricultural Service[1] can supply the potential exporter with background information on the country in question; food studies on a number of markets; details on import duties, licensing requirements, labeling and food laws and other regulations affecting trade; and lists of trade contacts.

Also available are specialized publications and services intended to give the would-be exporter a foot in the door.

[1] *Inquiries about these programs may be directed to the Export Trade Services Division, Foreign Agricultural Service, U.S. Department of Agriculture, Washington, D.C., 20250. Tel: (202) 447-7303.*

• **Trade Opportunity Referral Service (TORS).** Exporters availing themselves of this service receive free of charge a weekly publication *Export Briefs,* that essentially is a want list of products required by foreign importers. There is also a direct mail service under which inquiries about specific products are forwarded directly to the subscriber within 48-72 hours after receipt from overseas.

Exporters, in turn, can place a 50-100 word statement about their company and products in a monthly FAS publication, *Contacts,* which is distributed to importers around the world.

• **Trade exhibits.** Participation in these FAS-sponsored exhibits of consumer-ready foods is available to U.S. companies for modest fees of $50-$200. The charges pay for display space, advance publicity, information on foreign buyers, introductions to the trade, assistance in clearing products through customs, and other services. Such exhibits can result in thousands of dollars of immediate and followup sales, as well as contacts with key tradespeople, including potential agents. In October 1979, FAS will sponsor an Arabian Peninsula regional food show in Bahrain.

• **Sales teams.** A more individualized approach to marketing, this program features teams of 8 to 12 food-company representatives who travel to several markets in a given region. Companies selected pay a participation fee and transportation and living expenses of their representatives, while providing product samples for display in the market.

FAS makes all arrangements, including preparation of a sales team brochure, scheduling of appointments, rental of salesroom facilities, shipment and clearing of samples, and arrangements for trade receptions. Such sales teams visited Kuwait and Bahrain in June 1977 and Saudi Arabia, Iran, and Egypt in March-April 1978. Another team trip to Kuwait and Saudi Arabia's main commercial centers—Jidda

IA-13934 concerning prepackaged food materials. The specifications are referred to in general as the Saudi Arabian food labeling requirements. The requirements are still in effect at this writing with 15 additional food groups added in September 1978.

Essentially, the law requires that the Arabic language be used in the labeling of food products regarding:

- Product name;
- Net contents;
- List of ingredients.

In addition, the Saudi Government may eventually require Arabic language translation of date of manufacture, and (for perishables) date of expiration. At the present time, however, this information is not required.

The food products to which the labeling law applies include: All kinds of vegetable or animal oils, all kinds of milk (powdered, whole, condensed, concentrated), cream, juice, tea, coffee beans (whole, ground, or powdered), pasta products (spaghetti, macaroni, and fine thread macaroni), jams and jellies, all tomato products (juice, paste, etc.), canned garbanzo beans, green beans, all other types of beans, halva, tuna, mackerel, sardines, processed cheese, bottled water, edible salt, peas, prepackaged meat and its derivatives, and all kinds of soup.

(A copy of the complete Saudi food labeling requirements can be obtained from the Director, Export Trade Services Division, FAS/USDA, Wash., D.C. 20250.)

Trademarks and ingredients must be registered for each product, with 60 copies of each label required for registration purposes.

Changes underway in food laws include a proposed requirement that juices be 100 percent pure, whereas only 50 percent purity is required now. This should benefit the United States over competitors that sell various blends at discounted prices.

Otherwise, the market is wide open—with import duties low to nonexistent—and unencumbered by import licensing or exchange controls. □

and Dhahran—is planned for May 1979.

The serious exporter also will want to make at least one preview trip on his own to the market. This is especially important in the Arabian Peninsula, where personal contact, patience, and trust figure importantly in business transactions.

Prior to their visit, these exporters should first contact U.S. embassies in target countries, specifying when they plan to visit and for how long, what they hope to accomplish, and contacts they wish to make. The embassies, in turn, will supply needed information about the country, its customs, and trade requirements and restrictions.

In some cases, they may also be able to arrange interviews with tradespeople and Government officials and help with logistical problems that arise.

Another potential contact point is the Saudi Arabian Trade Center in Jidda, where information on the country's agricultural production and trade can be obtained. The address: King Abdelazez Street, P.O. Box 4571, Jidda, Saudi Arabia.

From then on it is up to the exporter, who would do well to consider these tips:

- Do your homework. Study the market. Understand the rules.
- Patience is a key word in the Middle East. Unanswered telexes, missed appointments, and delays are common here and do not necessarily mean that the buyer is uninterested. Doing business also is as much a social occasion as it is a business transaction; the American penchant for short meetings and the quickly concluded deal can work against the U.S. exporter who wishes to establish long-lasting ties. Initial small talk, inquiring into the health of the importer's family, sharing tea or a soft drink is important.

Moreover, a private business meeting in the American sense is rare. Be prepared for interruptions.

Roll with the punches, particularly during the first meeting. As negotiations become more serious, you will be amazed at how the atmosphere changes.

- Do not underrate the Arabian importer. He has been exposed to food products from the world over, including some new types of prepared and processed foods rarely seen even in the United States. He will be price conscious—but also looking for quality—and will expect to obtain exact information on cost of delivery, modes of delivery available, transit times, credit terms, packaging, and promotion.
- One of the most important decisions made will be what agent to select. Agents are necessary in this part of the world and superabundant—often with seemingly impeccable credentials and high-placed connections. Before appointing an agent, investigate his background thoroughly. Avoid getting into long-term contracts, which can be disastrous if the agent proves to be unsatisfactory.
- Always do business on the basis of an irrevocable letter of credit.
- Be innovative in your dealings. Look for ways to alter product or packaging to meet the importers' requirements and explore different modes of transportation available to find the cheapest and/or quickest way of supplying the market. Where possible, go a step further than the minimum requirements and consider the needs of consumers who—like their American counterparts—are increasingly concerned about product content and quality.
- Pay close attention to travel arrangements, remembering that Friday is the Moslem holy day; offices often also are closed on Thursday, particularly Thursday afternoon—the 2 days being equivalent to our weekend. Saturday mornings, on the other hand, are the best times for appointments.

Also avoid arriving during religious holidays; make travel plans and reservations well in advance; confirm all reservations, and avoid changes in them since hotel accommodations are limited and very expensive. □

Indonesian Tea Output, Exports at Record Highs

By Gordon O. Fraser

Indonesia's tea production and exports, stimulated by domestic quality improvements and expanding world tea demand, reached record highs in 1978.

The United States accounted for about 20 percent of total Indonesian tea exports in 1977. Other important markets were Australia, Pakistan, Western Europe, Egypt, Iraq, and Canada. Indonesia exports 70-80 percent of its total tea output.

Tea production for 1978 is estimated at 66,000 metric tons and exports at more than 52,000 tons. Production in 1977 was 64,500 tons, and exports 51,200 tons.

Indonesia is the world's sixth largest tea producer—following India, the People's Republic of China, Sri Lanka, Kenya, and the USSR—and the fifth largest exporter.

Formerly, Indonesian tea was at a disadvantage on the world market because of a reputation for being inferior to tea from other sources. The nadir probably was reached in 1969, when Indonesia's net export prices were only 37 percent of Sri Lanka's export prices.

In 1976, however, Indonesian export prices were only 4.4 U.S. cents per kilogram below Sri Lanka's—a 96.7 percent gain in the price ratio.

Indonesian tea producers have exerted considerable effort in recent years to improve the quality of their tea through improved plucking, handling, and processing methods. And the relatively higher prices Indonesian tea commands in current markets also reflect increasing world demand for tea, resulting in part from consumer resistance to coffee prices.

The popularity of Indonesian black tea for both hot and iced consumption in the United States is attributed to several factors, including:

- U.S. consumers prefer a lighter brew than that preferred by U.K. tea drinkers, who usually add milk before serving.
- Greater consumer demand for tea bags has increased total tea demand.
- Indonesian tea is well suited to production of instant tea because of its high yields of extractable solids (the solids do not precipitate out—a desirable characteristic in instant tea manufacture).

The importance of tea in Indonesia's economy is reflected in its standing among the country's agricultural exports—fourth largest after coffee, rubber, and palm oil.

Government estates are the largest producers of tea in Indonesia. Gunung Mas (Gold Mountain) estate, in West Java, is a typical Government tea estate of about 1,200 hectares in tea bushes on the north slope of a mountain that rises to an altitude of 1,200 meters. Tea bushes grow almost to the top of the mountain.

Gunung Mas is part of State Plantation Group 12, which manages about 11,000 hectares of tea production in 15 separate plantations, 9,000 hectares of rubber, 1,000 hectares of cinchona, and 1,000 hectares of other crops.

Two other State plantations in West Java and North Sumatra with Group 12 supply 75 percent of the country's tea exports. The tea yields on these plantations—about 1.5 tons per hectare—compare favorably with yields in other countries.

At Gunung Mas, about 20 percent of the tea bushes are propagated from leaf cuttings taken from selected clones. Seeds or cuttings are grown in nurseries for up to 2 years and then replanted in the field. Leaves are ready for harvesting in 2 to 3 years after replanting. Bushes are considered mature at about 10 years.

About 1,400 of the 1,700 workers (mostly women) at Gunung Mas are housed on the estate, which provides schools, medical care, and electricity without charge.

Tea pickers, who comprise the largest part of the work force, are paid the equivalent of 3 U.S. cents per kilogram of tea. They average 15 kilograms per day, although some pick as much as 20 kilograms or more, for which they are paid a premium.

Gunung Mas has its own tea processing plant, which is in continuous operation as tea leaves are plucked constantly except during periods of rain.

Each tea bush is plucked every 7 to 9 days and is kept pruned to a height of 30-36 inches.

Only the tender new shoots and buds are removed—an important practice in the production of high-quality tea. About 4.5 kilograms of green leaf tea are required to produce 1 kilogram of made (manufactured) tea.

Tea bushes are pruned heavily every 3-4 years. Following pruning, plucking is omitted for several months to permit regrowth. The combination of pruning and plucking give tea plantations a manicured and sculptured appearance of considerable beauty.

On smallholdings, tea is often interplanted with other crops, and tea yields are lower than on the State plantations. Smallholders, with their modest production areas, normally sell their tea leaves to middlemen, who ship to small green-tea processors—primarily in Central Java. The jasmine grown in this area is used to scent green tea.

Green tea production, estimated at 15,000-16,000 tons per year, is largely consumed domestically. The essential difference in processing green tea from black tea is that the enzyme permitting fermentation in the black tea process is killed by the application of steam or heat in the processing.

Total area planted to tea in Indonesia in 1976 (the latest year for which data are available) was 104,300

The author is U.S. Agricultural Attaché in Jakarta.

Top left: A modern tea factory in West Java. Top right: Bidding on Indonesian tea at the weekly Jakarta tea auction. Far left: A smallholder's tea farm in West Java. Near left: Tea pickers at work on the Gunung Mas estate. Bottom left: Tea-leaf withering troughs at a West Java tea factory. Bottom right: Wet sorting of tea.

hectares, including 40,600 hectares in Government estates, 27,000 hectares in private estates, and 36,700 hectares in smallholdings.

Government and larger private tea estates sell their tea weekly for export through the Jakarta Tea Auction. Tea buyers for the United States, West Germany, the Netherlands, the United Kingdom, Belgium, and Australia bid on offerings, along with domestic traders and local representatives of foreign buyers.

The Jakarta auction, organized in 1973, circulates about 2 weeks before each auction a list of offerings by the estates, lot numbers, numbers of chests, and net weight. Samples of each lot are available.

Bidding is on an f.o.b. basis, Tanjung Priok, for palletized lots of 20-30 chests each. Buyers are required to pay within 2 weeks by irrevocable letter of credit for 100 percent of f.o.b. value. □

Indonesia's Black Tea—Step by Step

Indonesia's black tea—a major export earner—derives its flavor and color from a fermentation process that imparts the characteristic robust (brisk) flavor.

The fermentation process involves enzymic action on the catechin polyphenols present in each leaf—essentially an oxidation process initiated by passing tea leaves, following the withering process, through a rolling machine.

Newly plucked tea leaves are withered in open trays, which may be 100 feet or more long and 4-6 feet wide. Leaves are loosely spread in these trays up to 8-10 inches deep. Warm air is passed through the leaves by fans. After 10-14 hours, the leaves have lost 50-60 percent of their moisture.

The limp, wilted leaves are then passed through a rolling machine, which consists of a circular, corrugated table plate and an upper plate with an adjustable center portion through which pressure on the leaves can be carried.

The upper plate is rotated eccentrically above the table to impart a twist to the leaves—a process compared to rubbing leaves between the palms of the hands, as was done in ancient times.

The enzymic oxidation begins as the catechins and enzymes originally separated in the leaf are expressed and become mixed in the rolling process. The green color of the leaf diminishes, and a brown or coppery color—resulting from the oxidation process—begins to appear.

A sifting action also takes place, following passes through the roller that separate the smaller, tender leaf particles from the larger pieces. The latter are repassed through the rollers until they have been reduced to suitable size.

The rolling process produces different portions—dhool, mahla, and fines, plus the residual bulk. The dhool is discharged from the roller into a hopper where rotating beaters break up the mass. The leaves pass across a green leaf sifter that separates out the smaller particles.

The sifted dhool is spread out thinly over broad surfaces to cool, to continue moisture loss, and to give continued access to oxygen for the fermentation process. The color changes further, and becomes a dark coppery brown. The typical tea aroma also develops. This phase of fermentation is kept as short as possible, as deterioration becomes appreciable after about 4 hours.

From this stage, the leaf is passed through dryers, which reduce the moisture content to about 4 percent and stop the fermentation action.

Following the drying or firing phase, the tea is again spread out to cool. Grading and sorting are accomplished by passing tea through or over two oscillating, differentiated sieves. The general grades produced are Broken Orange Pekoe, Brown Pekoe, Orange Pekoe, Pekoe, Souchong, Broken Orange Pekoe Fannings, Fannings, and Dust.

The Broken grades and Broken Orange Pekoe Fannings should have substantial content of small, tender leaves from the early dhool in the rolling process; the leaf grades come mainly from the later stages of rolling.

The result of this grading is a division between the tenderer portions of the leaf and those from the tougher, more mature portions. Broken Orange Pekoe should contain a high proportion of buds (tips).

Orange Pekoe is characterized by an abundance of twisted tender stalk.

Pekoe and Souchong tend to be more compact.

Pieces of tough stalk and other atypical particles are removed by hand or by sieves.

After sorting, grades are packed in plywood chests lined with aluminum foil that hold 40-50 kilograms each. □

EC Increases Wheat Export Authorizations

The European Community (EC) in early December sharply escalated its weekly wheat export authorizations and raised the level of wheat available for export under its export tender system.

Authorization in the first 2 weeks was granted for wheat exports of 370,000 tons, with maximum subsidies of about $108 per ton for specific geographic areas designated by the EC as zones.

The countries in the seven designated zones are: 1—North African and East Mediterranean countries; 2—Poland, USSR (Baltic ports), and Scandinavian countries; 3—East European countries and remaining ports of the USSR; 4—Central and South America; 5—Most African countries, excluding those in Zones 1 and 6; 6—Sudan Ethiopia, Iran, Iraq, Arabian Peninsula; 7—South and East Asia.

EC officials have suspended wheat exports to Zone 4, but were expected to establish a separate tender for that zone in late December. This move could mean a resumption of sales, but under greater control by the EC.

Export authorizations for wheat to Zones 1-6 during 1978/79 now total almost 1.4 million tons, against a total availability for export to those zones of 1.8 million tons. In addition, 300,000 tons of wheat also are available for export to Zone 7, including the People's Republic of China, but no export authorizations have been issued. □

Thais Tighten Corn Export Controls

Selecting seed corn in Thailand—an important U.S. competitor in Asian corn markets.

A 46 percent larger 1978 corn crop than its reduced harvest of 1977 has put Thailand in position to boost corn exports sharply during 1978/79. Current forecasts indicate that these exports could hit 2 million metric tons, compared with only 1.2 million during 1977/78 (July-June).

However, exporting this corn has been complicated by a complex marketing dilemma revolving around a large sales contract with Japan and Thai Government attempts to hold down domestic prices by imposing a partial ban on new export sales of corn.

The 2-month ban officially ended in December 1978, but efforts to define the Government's role in the export process continue and could have an important bearing on the country's future corn exports.

Of the 2 million tons of corn forecast to be exported in 1978/79, nearly 1 million tons already have been sold under supply agreements with other Asian countries. These agreements include 750,000 tons for Japan, 100,000 for the People's Republic of China (PRC), and 50,000 for Vietnam.

The agreement with Japan was concluded in early 1978 by the Thai Government to ensure a substantial market for the crop and avoid distribution problems arising from a lack of storage capacity. Furthermore, an assured market of this size was seen as a de facto form of price support for Thai farmers in the absence of official supports.

Concerned about its reputation as a reliable supplier, the Thai Government assigned various quotas to corn exporters to ensure that the overall Japanese contract would be fulfilled. But then domestic corn prices began to skyrocket —putting exporters assigned the quotas into a severe financial squeeze.

Vehement protests from these exporters prompted the Thai Government to take a series of additional measures aimed at holding down domestic prices. These measures included:

- Government review of new export contracts;
- A minimum monthly export price ($102 per ton in December 1978); and
- A 2.2-percent export tax.

Ultimately, the Government stopped issuing export licenses for new sales made outside the three agreements. This partial export ban was in force from October 25 through the end of 1978.

At the heart of the problem were terms of the agreement with Japan.

In that agreement, the sales price to Japan was based on the nearest-month Chicago futures price. However, local Thai prices, which exporters must pay to procure their supplies, subsequently rose to the point where Thai corn prices exceeded Chicago prices by as much as $10 per ton.

Furthermore, shipping rates to Japan were calculated on the basis of bulk rates from the U.S. Gulf. Actual shipping costs from Thailand are considerably higher, owing to the use of smaller vessels and less modern port facilities.

Thai exporters thus have claimed a double loss in fulfilling supply obligations, with losses proportional to their quotas. Smaller exporters, unable to buy forward because of cash-flow limitations, are in particularly difficult circumstances. Moreover, contract nonperformance results in fines of $20 for each ton not delivered, payable to the Japanese buyers or to the Thai Government.

But the partial export ban —representing the Government's response to some exporters' demands for relief—was to the apparent detriment of farmers enjoying the rising prices. It also adversely affected exporters capable of arranging sales at the current prices, given their trade connections and Thailand's proximity to certain markets in Southeast Asia.

Thus, the new year will most likely bring important policy decisions. Current indications suggest that the Thai Government will extend its control over corn exports by reintroducing an overall quota system. Alternatives include the continuation of supply agreements at deregulated prices or a free-market situation whereby Japan would bid for Thai corn on the same basis as other interested countries.—*Dan Berman, Grain and Feed Division, FAS.* □

Demand for U.S. Cotton Rises Sharply in Korea

Korea's 1977/78 (August-July) cotton imports—about 93 percent from the United States—were 266,000 metric tons (1,312,000 480-lb bales), customs clearance basis. This was a strong 44 percent above the 1976/77 level of 198,000 tons (909,000 bales).

The higher level of imports results from the cotton textile industry's recovery from a slowdown in the final quarter of calendar 1977 and continued strong export demand for cotton products since then. Stocks were also rebuilt during 1977/78 from the low beginning level of 193,000 bales to 359,000 bales.

Korea's export value of cotton products in 1977/78 jumped to $782.2 million from $602.2 million in 1976/77—a 30 percent rise in value.

Cotton consumption in 1977/78 was estimated at 252,400 tons (1,157,000 bales), a 22 percent increase over the year-earlier total.

The general outlook for Korea's textile industry is bright. Demand for cotton products—particularly for exports—has been strong since the final quarter of calendar 1977, and the industry, swamped with orders from overseas customers, has produced at a record level during 1978.

The industry expects the current trend of high-level exports to continue because Korean cotton products are very competitive in the world market as a result of appreciation of the Japanese yen and depreciation of the U.S. dollar.

The Spinners and Weavers Association of Korea (SWAK) projects 1978/79 cotton imports at 283,000 tons (1.3 million bales)—about the same as in 1977/78. Most mills have already contracted for exports of cotton products through March, and some mills have had to turn down orders because of their inability to fill them in the near future.

SWAK projects Korea's total consumption in 1978/79 at 286,000 tons (1,317,000 bales)—an average monthly consumption of 23,900 tons or 109,800 bales. But in June, when mills were operating at 98.2 percent of capacity, consumption was only 23,200 tons or 106,700 bales.

Korea's plans to increase the total number of spindles to 2,808,876 by yearend 1978 could mean 1978/79 cotton consumption of about 278,000 tons (1,277,800 bales)—another record. *—Based on dispatches from Gerald Shelden, U.S. Agricultural Attaché, Seoul.* □

Spain's Canned Fruit Output, Exports To Rise

Spain's output of canned decidous fruit during the 1978/79 marketing year is expected to rebound to about 3.4 million cases, 79 percent greater than the relatively small 1977/78 pack, which was greatly reduced by freeze damage.

Spanish canners believe they will be able to export substantially larger quantities of processed deciduous fruits in 1978/79 than in 1977/78, despite higher import duties in the United Kingdom (Spain's leading market) and the price boosts for this year's Spanish pack resulting from higher prices paid to growers. However, volume is not expected to exceed the totals reached during the several seasons preceding 1977/78.

In addition, Spanish canners are encountering growing economic difficulties at home and stiff competition in foreign markets from such countries as Italy, Greece, Australia, and South Africa.

The 1978 apricot pack, estimated at 900,000 cases, is three times the size of the previous year's, when apricot production was heavily damaged by frost. Canned peach production is estimated at 1 million cases, nearly 67 percent larger than the 1977 pack, which was the smallest of the past 10 year's production levels.

Production of other canned fruits (mainly pears and plums) in 1978 is estimated at 1.5 million cases, 50 percent more than in 1977.

Although rainfall was heavy in the spring of 1978 and hail was reported in some of the leading peach growing areas at harvesttime, weather conditions were generally favorable for the deciduous fruit crop. Except for scab damage to apples and pears, no major insect or disease problems were reported.

Growers in the major commercial production areas during the past year have made substantial improvements in cultural practices, particularly in fertilization, irrigation, and pest control.

Processors paid an average price equal to about 16 U.S. cents per kilogram for 1978-crop apricots, compared with 19 to 38 cents in 1977. Prices paid for peaches also were lower—38 to 50 cents per kilogram, compared with 38 to 63 cents in the previous season.

Despite higher costs (especially for labor and sugar), new pack prices are expected to be lower than 1977/78 prices—even if this means a reduction in profit margins.—*Jose E. Vidal, Office of the U.S. Agricultural Attaché, Madrid.* □

New FAS Publications

- World Grain Situation and Outlook for 1978/79 (FG 18-78)
- Mushroom Exports From Taiwan, South Korea, Set Records (FVEG 5-78)
- U.S. Oilseed Exports Climb in September (FOP 15-78)
- World Production of Flaxseed and Products To Fall in 1978/79 (FOP 17-78)
- World Meal and Oil Production Seen Higher in 1978/79 (FOP 16-78)
- Smaller World Cocoa Bean Crop Forecast for 1978/79 (FCB 2-78)
- World Cotton Production Down—Stocks Expected To Decline (FC 20-78)
- Canned Deciduous Fruit Packs for 1978 Up in Australia, Down in South Africa (FCAN 5-78)

Single copies may be obtained free from the Foreign Agricultural Service, USDA, Washington, D.C. 20250, Rm. 5918-S. □

U.S. Livestock, Feed, Seed, and Semen Exporters To Participate In Italy's Verona Fair in March

U.S. pavilion at Verona in 1976, last year U.S. participated.

Producers of U.S. dairy cattle, swine, livestock, feed and feed ingredients, frozen semen, and seed have been invited by FAS to participate in the International Agricultural and Livestock Fair at Verona, Italy, March 10-18, 1978.

The Verona Fair—by far the largest farm exhibit in Italy — is considered by many producers to be the agricultural showplace of Europe and the place to learn the latest developments in the industry.

Held each year in March, the event in 1978 encompassed 300,000 square meters and contained exhibits of 2,342 firms (387 from outside of Italy) from 24 countries. Registered attendance was over 500,000 persons from all parts of Western and Eastern Europe, the Middle East, and the United States.

The tradition of holding organized fairs at Verona dates back to A.D. 806 when the Bishop of Verona —now known as St. Zeno— suggested fairs be held there to dispose of animals and livestock given to the Church by landowners and farmers. A fair has been held there most years since, although wars, fires, and epidemics have disrupted the annual schedule.

In 1898, the event took its present form when it was decided to emphasize agricultural products, including livestock. About 30 years later, the fair became international in scope when it began to cooperate with the Union des Foires Internationales.

Unlike many of the fairs in Italy, which are specialized in nature and often geared to industry, the Verona Fair is keyed to the general needs of agriculturists. Visitors from all phases of the agricultural economy come to examine the exhibits of modern farm equipment and machinery and farm products, including animals from many countries.

The U.S. Department of Agriculture has participated in the Verona Fair most years since 1961, featuring exhibits of high-quality breeding stock (cattle, swine, and Quarter Horses), soybeans, vegetable oils, and products of the tanning industry.

The 1979 U.S. exhibit will be held in the permanent U.S. pavilion where space will be provided for the various individual exhibitors, as well as a trade lounge in which business discussions can be held.

Italy is an important market for U.S. farm products. In 1977/78, U.S. agricultural exports to Italy were valued at $929 million, with bulk commodities accounting for well over 90 percent of the total. Eleven percent greater than in the previous fiscal year, most of the 1977/78 U.S. shipments consisted of soybeans, corn, oil cake and meal, tobacco, and wheat.

Italy is also an important market for U.S. livestock. In calendar 1977 that country imported 637 U.S. dairy breeding cattle and 1,400 breeding swine.

Livestock, feed, seed, and semen producers and exporters in the United States, who want to participate in the Verona International Agricultural and Livestock Fair, can get additional information by writing to the Export Trade Services Division, Foreign Agricultural Service, USDA, Room 4945 South Building, Washington, D.C., 20250, telephone (202) 447-6343.

European representatives of U.S. firms can contact John H. Davenport, Agricultural Officer, American Consulate General, Piazza della Republica 32, Milan, Italy, telephone (02) 652841. □

Foreign Agriculture

Vol. XVII No. 3
January 15, 1979

The Secretary of Agriculture has determined that publication of this periodical is necessary in the transaction of public business required by law of this Department. Use of funds for printing *Foreign Agriculture* has been approved by the Director, Office of Management and Budget, through June 30, 1979. Yearly subscription rate: $38.00 domestic, $48.00 foreign; single copies 80 cents. Order from Superintendent of Documents, Government Printing Office, Washington, D.C. 20402.

U.S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D C 20250

PENALTY FOR PRIVATE USE, $300
OFFICIAL BUSINESS

POSTAGE AND FEES PAID
U S DEPARTMENT OF
AGRICULTURE
AGR 101

First Class

Prospects Diminishing for Netherlands Imports of Grain

Bumper crops of grain in the Netherlands and greater availabilities from nearby European Community suppliers have reduced prospects for that country's grain imports in 1978/79. Reductions in wheat imports will be tempered by a continuing deficit of bread-quality wheat. But feedgrain imports will be adversely affected both by the large EC supplies of feed-quality wheat and the bumper harvests of barley.

A leading transshipper of grain to EC and other European countries, the Netherlands last year was the fourth largest EC market for U.S. grain, taking some 3.9 million metric tons.

Wheat production in the Netherlands reached a record 792,250 tons in 1978—20 percent more than in 1977—as yields averaged 6.6 metric tons but in some areas topped 10 tons per hectare; this compares with an average of 5.3 tons per hectare in the previous 5 years. Unusually favorable weather and increased planting of high-yielding varieties contributed to this sharp gain. However, high-yielding varieties generally are not suitable for bread.

In light of this situation, the Netherlands and other EC countries will probably still need to import sizable amounts of U.S. and Canadian wheat for blending, possibly 4-5 million tons. Additionally, more low-quality wheat will find its way into livestock feed in competition with imported feedgrains.

Meanwhile, wheat stocks are mounting, and the EC has begun an aggressive export subsidy program for both wheat and wheat flour. A relatively large Dutch barley crop estimated at 425,000 tons, plus greater supplies of corn and barley from other EC countries, points to heavy competition in the country's feedgrain market, where the following appear likely:

- Heavy pressure on prices of feedgrains, especially, during the second half of 1978/79;
- Lower demand for overseas feedgrains in favor of more intra-EC trading in feedgrains and feed wheat; and
- A strong EC export subsidy policy for barley.

Thus, imports will probably continue their downward thrust that began last year when Dutch corn imports from third countries—mainly the United States—fell a third below 1976/77's level to 2.9 million tons.

Increased use of nongrain substitutes such as tapioca and corn gluten contributed to that decline and are continuing to have an influence this year. However, with EC demand for many of these products rising, prices are going up also, thereby reducing their competitive position.

Regarding tapioca, rising EC demand may place upward pressure on prices, although prices still can go a long way before surpassing the feeding value of the product. A similar trend is taking place for citrus pulp, while usage of corn gluten in mixed feeds already is about at maximum levels.

Nonfat dry milk, on the other hand, is likely to be used increasingly in livestock feeds, especially in light of anticipated increases in EC subsidies for this purpose. □

USSR Soybean Crop May Set Record

Soviet soybean production during 1978 probably totaled between 600,000 and 700,000 metric tons, substantially higher than 1977's crop of 540,000 tons, and could go as high as a record 780,000 tons.

The soybean harvest in Primorsky kray, which normally accounts for about 20 percent of total USSR soybean production, was 140,000 tons of beans from a planned 150,000 hectares—a record yield of 0.93 tons per hectare.

Primorsky kray's soybean yields for the 5-year-plan periods 1961-65, 1966-70, and 1971-75 averaged 0.56, 0.56, and 0.53 tons per hectare, respectively.

In 1975—the year of the record Soviet soybean crop of 780,000 tons from 810,000 hectares (0.96 tons per hectare yield),—Primorsky kray's soybean yields averaged 0.67 tons per hectare. The 1978 yield would be almost 39 percent above average yields in 1975.

The report on production in Primorsky kray parallels earlier reports of good soybean outturns in other major Soviet soybean regions, Amurskaya oblast and Khabarovsky kray—*Michael D. Zahn; Foreign Demand and Competition Division; Economics, Statistics, and Cooperatives Service, USDA.* □